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ABSTRACT

During the past several years, policymakers and practitioners have concentrated their energies on resolving equity/adequacy issues, reforming school tax structures, improving schools' efficiency and cost-effectiveness, developing school-based accountability, and exploring alternative cost-cutting and fundraising strategies. Total expenditures for public elementary and secondary education approached $336 billion for 2000-01, making education the largest single spending category in all the states. In late February 2001, 31 states reported revenues as being on target, but because of recession 11 states were instituting budget cuts. Trends in funding show slight increases in state support and slight decreases in local and intermediate support as states assume greater financial responsibility. Schools are spending an increasing proportion of their instructional budgets on special education. Although funding for educational technology increased with regard to hardware, technological support seems to be largely ignored. Districts are spending less money on facility maintenance and repair, and teachers' salaries are not keeping up with inflation. The following topics are discussed in their own sections: statistical overview, persistent funding disparities, major developments in school finance equity, new attention to outcomes and adequacy, improving efficiency and cost-effectiveness, school-level data-collection initiatives, cost-cutting trends, fundraising strategies, and future policy and research directions. (RT)

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School Finance.
Trends and Issues

Margaret Hadderman, Compiler

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Compiled by Margaret Hadderman, research analyst.
Updated June 28, 2001

During the past several years, policy-makers and practitioners have concentrated their energies on resolving equity/adequacy issues, reforming school tax structures, improving schools' efficiency and cost-effectiveness, developing school-based accountability and reporting systems, and exploring alternative cost-cutting and fundraising strategies.

Statistical Overview

National Expenditure and Enrollment Figures

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The United States is a big-time spender on education. Total expenditures for public elementary and secondary education alone are approaching $336 billion for 2000-01 (National Center for Education Statistics 2000). In fiscal year 1996, the nation spent over $500 billion for elementary, secondary, and higher education combined.

Estimated public-education revenues for 2000-01 are about $354 billion (National Center for Education Statistics 2000).

State, local, and private expenditures accounted for over 90 percent of spending, with the federal government contributing about 10 percent to support students of all ages (U.S. Department of Education 1997).

Total per-pupil expenditures have risen from $5,529 in 1994-95 (National Center for Education Statistics 1999) to an estimated $6,585 in the 1999-2000 academic year (National Center for Education Statistics 2000). Per-pupil expenditures are expected to increase to $9,204 in 2009-2010 (NCES *Projections Web Site* 2000). The Organisation for Economic Cooperation and Development's comparison of 1994-95 spending in 29 countries pegged the average per-pupil cost for all educational levels in the U.S. at $7,790–the highest of any of the nations studied (Viadero 1998).

Education has become the largest single spending category in all the states (National Conference of State Legislatures 1996).

Public-school enrollment rose from 42.8 million students in fall 1992 to 45.9 million in fall 1997, a 3.1 million (or 6.5 percent) increase (National Center for Education Statistics 1998). This means that real per-pupil spending was stagnant over that five-year period, having increased only .14 percent yearly (Johnston 1998). In fall 1999, public-school enrollment had reached 46.8 million.

By fall 2000, public and private elementary/secondary enrollment was expected to reach a record 53 million students, up from 50.5 million in fall 1995 (National Center for Education Statistics *Projections Web Site* 2000). The NCES predicts "further small enrollment increases between 2000 and 2005, followed by small enrollment declines between 2005 and 2010." Elementary enrollment has risen faster than secondary

enrollment, and faster than the number of schools.

State Education Spending and Taxation Trends

State finances remained "remarkably healthy in FY 2000," with aggregate state balances reaching $40.4 billion, according to one National Conference of State Legislatures executive summary (January 2001). By late February 2001, the outlook seemed less rosy, due to disappointing December revenue collections. Only thirty-one states reported that revenues were on target; thirty-one reported that spending was exceeding budgeted levels.

Although most states were not planning budget cuts, eleven were instituting cuts, including Alabama, Delaware, Mississippi, Nevada, North Carolina, Virginia, and West Virginia. Another eight states, including Arkansas and Louisiana, reported that budget cuts were possible; ten were planning to raise taxes. Generally, the South was experiencing less revenue growth than other regions, especially western states. Increasing health and education costs "may dampen the budget outlook for 2002," despite the presence of "rainy day" reserves in many state coffers (NCSL February 2001).

Prior to the recession that officially began in spring 2001, most states were able to both increase spending and reduce taxes. Every state except Hawaii finished FY 1997 with budget surpluses (Liebschutz, December 1997). The strong U.S. economy allowed state legislatures to increase total state education spending from $135.2 billion in 1996-97 to $145 billion in 1997-98, a 7.2 percent increase (Liebschutz, October 1997). These figures exceed by more than $2 billion what the governors proposed in their budgets. Changes reflected court-mandated finance and tax-system changes in several states and rising enrollments, especially in the Southwest and the Far West.

In 1997, 34 states cut taxes; 22 cut personal income taxes, 9 cut business taxes, 10 cut their sales taxes (mostly on food or utilities), and 9 reduced property-tax rates (Liebshutz, December 1997).

A robust national economy also may have influenced

states' expenditures and allocations for education. According to Crampton (2000), "the 1999 legislative session closed with 563 [education] bills signed into law," ranging from "zero in Kentucky and Minnesota to 38 in California." Crampton observes that the number of new laws in 1999 "eclipsed earlier years and extended an overall trend of increasing levels of legislative activity since 1994," when only 127 education bills were passed.

Trends in School Funding

The proportion of federal funding for public schooling stabilized during the mid-nineties, varying between 6.9 percent in 1992-93 and 6.6 percent in 1995-96. During that same period, state contributions have edged slightly upward from 45 percent to 47.5 percent, whereas funding from local and intermediate sources has dropped slightly from 47 percent to 46 percent.

This trend is likely to continue, as equalization efforts shift more financial responsibility for schools to the state level (Protheroe 1997).

Special Education. Schools are spending an increasing proportion of their instructional budgets on special education, although estimates differ. An Economic Policy Institute study of nine representative districts' spending patterns found that between 1991 and 1996 special-education expenditures grew from 17.8 to 19 percent of all school funding (Johnston 1998).

In the 1997 National Survey of School District Budgets, the Educational Research Service reported that districts claimed to have spent 9.74 percent of their operating budgets for special-education instruction (Protheroe). A more recent survey of 50 states pegs total national spending for special education at $49.2 billion for 1998-99; the federal share would have comprised 7.7 percent of total expenditures, compared to 38.8 percent for states and 53.9 percent for local districts (Parrish 2000).

In an upcoming National Special Education Expenditure Project (SEEP) sponsored by the U.S. Department of Education, "a nationally representative sample including all states and 250 school districts will provide comprehensive and comparable data on special-education expenditures" for educators, legislators, and other stakeholders (Parrish).

Educational Technology. Spending for K-12 educational technology nearly doubled from the early to mid-1990s, increasing from $2.1 billion in 1991-92 to an estimated $4.1 billion in 1996-97 (Hayes 1997). In 1998, U.S. schools spent well over $500 million for educational software alone (D'Amico 2001). A Merrill Lynch Report put K-12 expenditures for instructional technology (mostly for Internet services) at nearly $7 billion during 2000 (Angulo 2001).

During the 1999 legislative session, 17 states passed 26 educational technology funding measures" (Crampton 2000). Crampton notes that over the past several years, "the range of the legislation has expanded from the purchase of computer hardware and peripherals to include" professional development for educators, as computer and Internet access improved. However, teacher training is only one hidden "total cost of ownership" that districts often neglect to factor into technology budgets (Bolton 2001). D'Amico estimates that it could cost America's schools $45,000 per school and $80 per student to update, maintain, and manage sophisticated systems with reasonable student access.

Facilities. For several decades, districts spent a steadily decreasing proportion of their budgets on maintaining and repairing increasingly outmoded, deteriorating buildings. Maintenance allocations had fallen from 14 percent in 1920 to 9.6 percent in 1960, to 6.7 percent in 1982, and to 3 percent in 1992 (Honeyman 1998). This trend may be changing. According to Faith Crampton (1998), "Between the 1996 and 1997 legislative sessions, capital outlay funding bills for elementary and secondary education nearly doubled from 41 to 70, approximately two-thirds of the states passing legislation."

In the 1999 session, 93 bills were passed in 35 states (Crampton 2000). Aging buildings, deferred-maintenance backlogs, increasing enrollments, and litigation in some states (California, New Mexico, Arizona, Colorado, and New Jersey) are pressuring legislatures to pass facilities-renovation and construction funding measures.

According to expert Joe Agron, districts across the nation are currently spending "near-record amounts on building construction and improvement" (Richard 1999). Districts completed building projects worth over $17.1 billion in 1998 and $16 billion in 1999. However,

the National Education Association pegs school building needs at $332 billion–nearly three times the suggested $112 billion in a 1995 GAO report (Richard). For further information, visit the National Clearinghouse for Educational Facilities website at http://www.edfacilities.org/.

Teacher Salaries

Teacher salaries, comprising over 60 percent of most school budgets, did not keep pace with inflation during the 1990s. From 1981-82 to 1989-90, teacher salaries had increased nearly 21 percent, from $30,811 to $37,163 (in 1994-95 constant dollars). However, teachers made only $36,973 in 1992-93, $36,828 in 1995-96, and $40,965 in 1998-99. Their salaries actually declined (in inflation-adjusted dollars) 1 percent between 1989-90 and 1995-96, and only recently are they regaining their 1990 levels (National Center for Education Statistics 1998).

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Persistent Funding Disparities

After two decades of court litigation and state equalization efforts, there are still wide disparities in public-school revenues among states and in per-pupil expenditures within and across states (National Conference of State Legislatures, "The Search for Equity in School Funding" 1996). A recent national study found that disparity decreased within most states and regions between 1980 to 1994, but increased for six out of seven disparity measures for the United States as a whole (National Center for Education Statistics, January 2000).

Experts expect these trends to continue, since local control is still a major determinant of school funding (Ritchie 2000). This means wealthy districts with high property values (and often low property-tax rates) maintain an advantage over areas with declining property values that must generate monies from higher property tax rates. Furthermore, schools with the most economically disadvantaged, at-risk students are likely to have the poorest financial resources (Books 1999). This pattern plays out in every state, though some rural states, such as Tennessee and Wyoming, have been quite conscientious in attempting to reduce funding inequalities (Verstegen and Grider 1999).

For example, in 1997-98, estimated per-pupil expenditures varied from $9,577 in New Jersey to $4,036 in Mississippi (National Center for Education Statistics Early Estimates 1998). For 1998-99, estimated per-pupil expenditures vary from $10,140 in New Jersey to $4,291 in Mississippi and $3,632 in Utah (National Center for Education Statistics Early

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Estimates 1999). For 1999-2000, the estimated variance is still substantial, showing a princely $9,963 for New Jersey and a modest $3,991 for Utah (NCES 2000).

Gaps are prevalent even in states with court cases. During the 1995-96 school year, New Jersey's per-pupil expenditures ranged from a low of $5,900 to a high of $11,950 (National Conference of State Legislatures 1996). In the same school year, New York State school "districts at the 90th percentile of expenditures per pupil spent 75 percent more than districts at the 10th percentile--$13,146 versus $7,525 (Books). Even greater inconsistencies exist among districts in many states, such as Illinois, where per-pupil spending for 1995-96 ranged from $3,000 to $15,000.

State School-Finance Litigation Progress

The pursuit of equity in the courts remains an elusive goal. Kentucky's celebrated Education Reform Act, which tied funding to court-mandated reform and equity goals, marked a short-lived pattern of success for challengers of state finance systems. The overall scorecard for unconstitutionality rulings has been about 50 percent (Crampton 1997, Whitney and Verstegen 1997). Since 2000, however, court victories have shifted slightly in plaintiffs' favor (see 1999 to Early 2001 section on this page).

Recently, lawsuits addressing educational adequacy concerns are on the increase, and a few recognizable trends may be emerging. To date, only five states (Delaware, Hawaii, Iowa, Mississippi, and Nevada) have NOT been sued (Whitney 1998, 1999).

1994 to 1996: Precedent-Setting Cases

Of 12 cases decided in 1994, seven funding systems (in Idaho, Illinois, Kansas, Maine, North Dakota, South Dakota, and Virginia) were found constitutional and five (in Arizona, Arkansas, Idaho, New Jersey, Ohio, and Rhode Island) were declared unconstitutional. The most notable challenge occurred in Arizona, where the state supreme court's decision hinged on unconstitutional inequities in school facilities. Faith

Crampton believes this decision may mark a new litigation trend, as inequities worsen from districts' efforts to accommodate growing enrollments and technology infrastructure.

In 1995, the most sweeping decision since the Kentucky case occurred in Wyoming, "where the state supreme court for the second time in 16 years overturned the education funding system" and mandated a replacement that "demonstrates a rational linkage between cost and level of education service provided" (Crampton). Another precedent-setting decision happened in Tennessee, where equity in teacher salaries is now required.

Finance litigation had a lackluster year in 1996, with decisions upholding current funding systems in New Mexico, Illinois, and Missouri (Crampton).

1997 to 1998: Banner Years and Legislative Aftermath

In 1997, six cases favoring plaintiffs were decided by state supreme courts (Alaska, Vermont, Ohio, New Jersey, Alabama, and West Virginia), and a Louisiana circuit court referred jurisdiction for school funding to the state legislature (Whitney and Verstegen 1997, Liebschutz 1997). In both Ohio and Vermont, the high courts declared state funding formulas unconstitutional, found conditions in districts with lowest spending unacceptable, but failed to recommend a minimum adequate funding level (Picus 1998). As Lawrence Picus sees it, the courts seemed "willing to let some districts spend more, provided the poorest districts had access to more resources."

Vermont's Equal Education Opportunity Act of 1997 (Act 60) will transform the state's entire tax system. Act 60 establishes a statewide property tax for a general state-support grant, includes income-sensitivity provisions, and allows districts to raise additional money through a guaranteed-yield provision (Whitney and Verstegen 1997). Although the legislature raised about $58 million in new taxes to fund education for FY 1998 and beyond, Picus (1998) believes Act 60 is destined to fail without additional funding for the system's guaranteed-yield tier.

1998 also proved a noteworthy year for school-finance litigation, according to Terry Whitney (1998). Suits were filed by districts in five states (Colorado, Connecticut, New Mexico, Texas, and Wyoming), fourteen cases are pending, and two longstanding cases (New Jersey and Arizona) were resolved (Whitney 1998, Schnaiberg 1998).

The Colorado and New Mexico suits build on Arizona's "Roosevelt" case, which challenged the state's method of funding school facilities (Whitney 1998). The Connecticut case revolves around funding-cap discrepancies, and Wyoming (see 1994 to 1996 precedent-setting cases above) and Texas 1998 litigation originated in previously argued cases regarding unconstitutional funding formulas.

In May 1998, the New Jersey Supreme Court closed the 28-year-old "Abbott v. Burke" case by approving Governor Christie Whitman's plan to bolster urban children's academic achievement (Whitney 1998). In July 1998, the Arizona Supreme Court upheld lawmakers' latest school-facilities finance plan, ending a seven-year lawsuit (Schnaiberg 1998).

In May 1998, however, Ohio voters defeated a 1-cent sales-tax hike to fund a court- and legislature-approved $5.24 billion school appropriation bill for fiscal 1999 (Whitney 1998). New Hampshire's finance overhaul "has prompted a statewide discussion of fundamental values and the state's responsibility to provide for an educated citizenry" (DeMitchell 1999). To evade reforms, one group of disgruntled New Hampshire taxpayers even lobbied to change the state constitution.

1999 Litigation: Accent on Civil Rights and Facility Improvement

In 1999, new cases were filed against five states: Alaska, California, Florida, Kansas, and Rhode Island (Whitney 1999). By the end of that year, according to Whitney, no fewer than 43 suits were still pending, including multiple cases in Florida, Minnesota, New Jersey, and Vermont.

Colorado, New Mexico, and Idaho were still involved in capital-outlay suits that were similar to the 1997 Arizona suit, whose plaintiffs have just rechallenged the

amount of the building-renewal funds appropriated by the legislature (its fourth equalization attempt). In September 1999, an Alaska trial judge invalidated the state's capital funding of schools, calling the system "non-uniform, unconstitutional, and discriminatory against rural, native Alaskan schoolchildren" (Smith 2001).

New York began a unique suit (see January 2001 decision below) "attempting to show that the state's funding system is inadequate and violates the civil rights [under Title VI of the U.S. Civil Rights Act of 1964] of minority students who make up 73 percent of the children in New York City schools" (Whitney 1999).

The Florida case is somewhat similar, involving a group of civil-rights organizations claiming to represent thousands of children who are not receiving an adequate education (Sandham 1999). This case is notable for seeking improved educational outcomes, not merely increased state spending on education. In Kansas, the "Robinson" case is another civil-rights suit that also alleges that "special-education students have suffered a disparate impact due to the state's funding formula" (Whitney 1999).

Another major 1999 action involved the South Carolina Supreme Court's clarification of state constitution provisions mandating "a free and open education system for all, while setting out loose performance-based standards" (Blair 1999). The ruling dismisses part of the suit aiming to change the school funding laws, but "orders a lower-court trial on whether South Carolina is providing an 'adequate' education" to the state's K-12 public-school students, particularly poor and rural students.

In California, the American Civil Liberties Union filed a suit on behalf of minority students lacking opportunity to enroll in advanced-placement courses required for college admission (Whitney 1999).

Finally, "Wisconsin plaintiffs re-challenged the funding formula that the legislature devised in June 1997, following an extensive state-sponsored study of costs and an unconstitutionality ruling in 1995" (Whitney 1999). The Wyoming Supreme Court, "in a rare show of judicial activism," gave the legislature some marching

orders: to design the best educational system possible for each Wyoming student, determine the cost of that educational package, and take necessary action to fund it. The court explicitly stated that "lack of financial resources will not be an acceptable reason" for failing to provide Wyoming students with equal educational opportunities (Whitney).

2000 to Early 2001: Facilities, Vulnerable Students, and a Landmark Decision

The new millennium ushered in still more litigation, including a much-publicized May 2000 lawsuit brought by civil-rights groups against the state of California for failing to provide some students with the most basic physical and educational amenities (Sandham 2000). Interestingly, Governor Grey Davis has launched an aggressive counterattack that seeks to hold districts [not the state] responsible for poor school conditions (outdated texts, leaking roofs, rats in classrooms, and unqualified teachers) (Gewertz 2001); teacher unions have responded by bargaining for the right to file grievances over bad school conditions (Bacon 2001).

In October 2000, a North Carolina superior court judge issued two of three decisions (the third was in April 2001) that upheld the state's funding formula while requiring the state to provide preschool education for all at-risk 4 year-olds (Manzo 2000).

Meanwhile, states such as Michigan, California, and Arizona were trying to settle disputes over provision of mandated special-education services. Other states, such as Ohio and New Hampshire, are still scrambling to meet court deadlines for establishing new funding systems, while Colorado, New Mexico, and New Jersey are making progress toward meeting facilities renovation and construction funding goals.

Colorado has agreed to provide $190 million over 10 years for capital construction (Smith), and New Mexico will provide nearly $400 million for such projects (Associated Press 2001). In New Jersey, "a state-run school construction crusade… is expected to shower local schools with $12 billion worth of new facilities and renovations over the next several years" (Johnston 2000).

In a partial setback for plaintiffs, a Wisconsin Supreme Court ruling in late August 2000 upheld the state financial system, but also outlined Wisconsin's responsibilities for educating its children (Blair 2000).

In a landmark decision on January 10, 2001, Manhattan trial-court Justice Leland DeGrasse concluded that "the Empire State's method of financing schools hobbles the 1.1 million New York City district's capacity to give its students the opportunity for 'a sound basic education' as guaranteed by the state constitution" (Keller 2001). DeGrasse found that the state-finance system "violates federal civil rights law because it disproportionately harms [the state's] minority students," three-quarters of whom attend New York City schools. This ruling adds New York to the nearly 20 states that have been forced by courts in the past decade to find more money to assure children in poor districts a constitutionally adequate education. The price-tag for satisfying the ruling without reducing existing payments to districts could amount to another $3 billion annually. Governor Pataki (who wants to revamp the entire funding system) and the legislature have until September 15 to develop an adequate funding scheme (Keller 2001a).

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Trends and Issues: School Finance

Major Developments in School Finance Equity

A Shift to School-Level Equity

A movement to focus on school-level rather than district-level equity is occurring. Sporadic, short-lived gains from decades of horizontal (district-level) equity litigation are forcing practitioners and policy analysts to reevaluate prevailing assumptions and strategies (Hertert 1995).

State equalization schemes--efforts to beef up spending in low-income districts, place legislative caps on wealthy districts, or redistribute recaptured, "excess" revenues to poorer districts--are more likely to improve taxpayer equity than to produce equality of schools within districts (Hertert 1995, National Conference of State Legislatures 1996). Children can still be shortchanged on the basis of geography.

From Horizontal Equity to Vertical Equity

Horizontal-equity formulations--those that attempt to equalize revenues among school districts--have ignored important differences among types of districts (rural, urban, and suburban) and other factors, such as size and diversity of student enrollment, student residential patterns, number of school units, and district organizational structure (Hess 1995). As G. Alfred Hess, Jr. shows in his analysis of Chicago school finances, a region's demographics "reflect the political

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power in the state." Although suburbanization has shifted political power to the suburbs, a majority of people reside in less wealthy school districts.

Achieving equity among different types of districts has proved to be extraordinarily difficult (Hess); so has estimating the extent of these inequities (Hertert 1995). Even if states were to play "Robin Hood" and distribute funds to schools on a per-pupil basis, the system might be considered "equalized" without being adequate (Hertert).

Many experts are now espousing *vertical equity*, which treats pupils in "an appropriately different manner" (Berne 1995) and ensures "equitable and adequate funding to each school in the state" (Hess). This focus on revenues at the school level combines well with the current emphasis on individual school accountability for student achievement.

In 1995, for example, the Chicago Panel on School Reform proposed a new school-based funding system mandating an 85 percent pass-through rate, combined with a new "state funding system based on a state property tax and a high foundation level provided entirely by the state" (Hess). This type of system has enormous potential for equalizing educational resources for innercity and special-needs students inadequately served by district-based funding formulas and categorical programs, like Title I.

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New Attention to Outcomes and Adequacy

Equity is beginning to be addressed in terms of educational outcomes, not just dollars, and in terms of adequacy of educational opportunities. Linking equity and outcomes is complex, since definitions vary, and outcomes rely on results of an educational process less easily manipulated by policy interventions than are resources or inputs (Berne 1995).

Catherine Sielke (2000), an educational administration professor and finance expert, spells out this new outcomes/adequacy emphasis: "Current trends indicate that dollars per student alone will not be the object of equity, but rather the things that districts can purchase (people, materials, services, etc.) and/or the test scores (product) that students achieve."

New York State's Example

The wide-ranging per-pupil expenditure variances among New York State school districts at the 90th and 10th percentiles have already been mentioned (see the "Persistent Disparity" section). According to the State Education Department's 1997 and 1998 annual reports, NYS districts evinced a "dismaying alignment of disadvantaged students..., schools with the poorest educational resources (fiscal and human), and substandard achievement," whereas schools serving "the fewest at-risk children ha[d] the greatest financial resources, teachers with the best credentials, and the highest levels of achievement" (Books 1999).

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A study group convened by the New York State Commissioner of Education concluded that outcomes should focus on the whole child and that "differences in broadly defined outcomes should not be related to social distinctions such as race, ethnicity, and gender" (Berne). The group found resource equity a necessary but insufficient condition for reducing outcome inequities. It called for flexibility in using resources and "argued against a multitude of categorical aid streams," claiming that funding should be based on causes of low outcomes, such as poverty, not on the outcomes themselves (Berne).

A landmark January 2001 trial court decision that invalidated New York's educational funding system as discriminating against poor and minority New York City children appears to uphold the study group's conclusions. The decision was anticipated by a New York State Regents 1997-98 Symposium addressing how the state's school-finance system should be "restructured to achieve uniform high learning standards for all students," particularly in historically low-achieving schools (Wyckoff and Naples 2000).

Contributors to a special issue of *Economics of Education Review* unearthed several policy implications for New York State, including the need to increase overall capacity for school districts, align the finance system with districts' and students' different needs, and encourage districts to reallocate resources to meet learning goals. Two other researchers concluded that most New York State districts could not meet minimal performance standards "without large increases in state aid and local tax rates, accompanied by reforms that improve the productivity of teachers and administrators" (Duncombe and Yinger 2000).

Status of Adequacy During the 1990s

In a special issue of *Educational Policy*, William Clune's leading paper (1994) discusses the shift in attention from equity to adequacy, and from inputs to high minimum outcomes as primary policy and finance goals. Defining *equity* as financial equality among schools and districts and *adequacy* as sufficiency for some purpose (usually student achievement), Clune calls the 1990's stage of litigation "equity-plus." At that stage, emerging student-outcome goals had modified the

old equity framework, but true adequacy had been neither required nor widely implemented.

Implementing true adequacy would require each district to adopt a set of high minimum goals, identify needed resources for achieving them, and devise a long-range investment plan for deploying these resources and developing instructional programs. The price tag would be $5,000 per disadvantaged pupil, or $25 billion nationwide (Clune). In a study of policy-linkage models, Marilyn Hirth (1996) supports Clune's argument that concepts of equity and adequacy should be major elements of any systemic educational-reform policy. Both concepts are prominent features of recent litigation efforts.

Judicial Decision-Making Trends

In an article examining three decades of school-finance litigation, Deborah Verstegen and Terry Whitney (1997) observe that judicial decisions have turned on finance systems' adequacy. Judges have evolved a bifurcated theorizing process, employing "a minimalist basic-skills notion of adequacy" when upholding state-finance systems, and an equity/adequacy notion when invalidating them. According to these authors, there is a "broad movement underway to secure... the rights of poor children to equal opportunity and nondiscrimination [resembling] past civil rights activities on behalf of linguistic minorities and children with disabilities."

Although court decisions over the past 35 years have been focused on disparities (in money, available resources, services, state support levels, and local tax effort), more attention is being paid to "determining whether the resources available in all districts are sufficient to meet statutory requirements and the implicit expectations of a state's constitution" (Smith 2001). Increasingly, plaintiffs represent one or only a few districts desiring changes that will affect only a few jurisdictions, or they bring suits involving a specific component of the school-finance system, such as funding for capital improvements or treatment of special or "at-risk" populations of students.

Resource disparities seem to be more acceptable to courts, so long as "they exist above a level considered to be adequate" (Smith). Currently, *adequacy* is being

defined by courts and legislatures as "leveling up," but the concept could easily go in a minimalist direction in the future (Schrag 2001, Books 1999).

The development of academic standards to raise student achievement "could open states to lawsuits from groups of students who are struggling to meet the standards or from districts with large numbers of such students" (Whitney 1999). According to Whitney, states are especially vulnerable to lawsuits if they hold students accountable for meeting high standards yet fail to "provide adequate resources and allocate them equitably." A growing body of research is considering the validity, reliability, and equity of state accountability systems when used in an inequitable education system (Hunter 2000, Olsen 2001, and Moran).

State Responses: Implementation Problems and Possibilities

Although recent court decisions (notably in New York, Wyoming, and South Carolina) have upheld the civil and educational rights of poor, minority, and special-needs schoolchildren, there are no guarantees that these vulnerable populations will receive an adequate education or achieve substantially improved outcomes even if restructured state-finance systems become more equitable (Evans, Murray, and Schwab 1999).

Mary Moran, writing about standards and assessments as new adequacy measures, cites several reasons why "judicial rulings often lead to unfulfilled promises" and legislatures craft inadequate remedies: "The disproportionate influence of property-rich districts; underrepresentation of the school plaintiff's interests in the political process; resistance to changes in existing systems of educational finance; and scrutiny of judicial candidates for their school finance views in judicial elections and appointments" (Moran).

Some states, like Arizona and Michigan, have been sued repeatedly over failure to provide and/or fund appropriate special-education services (Fine 2001, Fine 2001a). Ordered by a superior court judge to reshuffle its finances in favor of serving at-risk students (including disadvantaged preschoolers), the state of North Carolina is finding that planning for and funding

these new priorities is extremely difficult (Manzo 2001). Governors can also resist or challenge lawsuits, as in the case of California's Grey Davis, who officially has blamed poor districts for dilapidated facilities (Gewertz 2001), and New York's George Pataki, who has decided to appeal a trial court's January 2001 unconstitutionality ruling (Keller 2001).

Several states have been embroiled in protracted struggles to match funding allocations to court mandates. Ohio has been trying for over 10 years to develop a solid finance plan (Sandham 1999, Archer 200, Howe 1999). New Jersey has struggled for three decades to come up with suitable programmatic, funding, and facilities plans to satisfy the courts and ensure its students' academic success (Goertz and Edwards 1999). Parity funding costs New Jersey an additional $250 million yearly; "the cost of renovating facilities in the [28 urban] districts is $1.8 billion, not counting the cost of addressing growing enrollments" (Goertz and Edwards).

The Robin Hood paradigm has proved a political minefield in New Jersey and several other states. Some decisions, such as New Jersey's, address inequities of only one type of district (poor and urban), overlooking adequacy of resources for educating children in rural and middle-income districts. In Verstegen and Grider's study of finance litigation's effects on rural and small schools, the rural schools in most of the 22 states studied reported unchanged funding formulas and unimproved financial conditions, regardless of whether courts had upheld or overturned their states' school-funding systems (1999).

Rural states like Vermont and New Hampshire are struggling mightily to fund and implement their new statewide school tax systems. The New Hampshire governor's latest proposal is for a sales tax to pay for schools (Viadero 2001). Despite a restructured statewide property tax, Vermont has recently experienced some huge interdistrict disparities in tax rates on similarly valued properties (Howe). Howe believes the only salvation for Vermont and New Hampshire may be their more limited constitutional view of school equity (compared with New Jersey's more expansive notion).

Funding Formulas and Tax-

Equalization Schemes

In the interest of adequacy, school-funding formulas and tax equalization are receiving considerable attention. According to economist Lewis C. Solomon and former Ohio assemblyman Michael Fox, such formulas are "fatally flawed" unless they are based on seven principles: adequacy, equity, efficiency, performance incentives, stewardship, promotion of learning, and community tax effort (1998). Tax equalization efforts in certain states, like West Virginia, are also helping to close the gap between wealthy and poor districts (Johnston 1998).

Converting adequacy to a funding formula is quite challenging. According to three finance consultants, there are several options: historical-spending, expert-design, econometric, and successful-schools approaches (Augenblick and others 1997). The successful-schools approach may be superior, as it examines actual expenditures in several demographically "typical," but highly successful districts.

Need for New Finance Structures

Many experts believe adequacy can only be achieved by constructing and implementing a new school-finance structure linked to educational standards. A report by the National Conference of State Legislatures (1998) identifies three building blocks of an adequate school-finance system: "(1) articulating educational objectives for students, (2) identifying and acknowledging the education capacity needed to accomplish those objectives, and (3) supporting that capacity with sufficient funding."

For Allan Odden (1998), an adequacy-driven statewide policy initiative must contain four elements: "a base spending level considered adequate for the average child to reach high standards, an additional amount of money for low-income, disabled, and LEP students to reach standards, a price adjustment for all dollar figures to ensure comparable spending power, and annual inflation adjustments to stabilize base spending levels." Districts can expedite the process by giving schools greater control over resources, revamping teacher compensation, and providing school-based performance incentives (Odden 1998).

Recent court rulings also suggest that a new special-education finance system is needed. According to Deborah Verstegen (1998), such a system must be cost-based and uniform across the state. The real costs of providing special-education services must be incorporated and supported by the state, and facilities must be "safe, healthy, and accessible to all children."

Unintentional Consequences of Litigation

As yet, there is little research on litigation's effects beyond a tendency toward equalizing resources in some states and "inching toward adequacy" in others (Evans and others; Cohen-Vogels 2001). As mentioned earlier, it is unclear whether "finance reform alone can turn low-performing urban schools around or narrow achievement gap differentials" Minorini and Sugarman 1999).

A few experts are beginning to consider litigation's side effects on school leadership. In theory, "an adequacy formula becomes the nexus of a new relationship between the state and school districts" based on results (WestEd July 2000). The state is expected to set standards and performance measures, backed up by adequate funding, and allow "districts to spend the funds however they want, in exchange for tight accountability for performance." In actuality, school leaders may not have the degree of autonomy they want and need to implement these reforms.

According to James Van Keuren (2000), "The frustrations of finding solutions to school finance litigation has caused governors and legislators to seek more control over education policy development" in several states, including Ohio, Alabama, Arizona, Kentucky, New Jersey, Missouri, and Vermont. Van Keuren believes these changes in governance place more responsibility on secondary teachers and principals to raise students' academic performance *and* reduce practitioners' policymaking role to an advisory one. Principals have less control of the budgeting process, especially in states where legislation gives the state more budgetary and school-management authority. Loss of local control has made secondary teachers and schools less powerful and more subject to state intrusion.

Neil Theobald, an educational finance professor at Indiana University, says the "shift in the balance of power—away from school leaders and toward state-level officials—is likely to continue and could even accelerate" (2000). He attributes this recentralizing trend to state policymakers' growing impatience while awaiting "discernable and substantial indications of school improvement." More prescriptive, top-down management approaches could result, driven by state court mandates for "additional funding to support higher testing standards."

Additional Equity Issues

Few scholars have analyzed how fundraising and other outside revenue sources are affecting equity. Although these funds are not counted in per-student expenditures, "they can enhance students' educational opportunities" (Arnold 1998). Poor districts have less fundraising capacity and opportunity than wealthy ones. Arnold believes, along with other experts (Molnar 2000, Manning 1999), that exclusive on-campus vendor-marketing arrangements, often involving millions of dollars, should be sharply scrutinized. Others question whether escalating fees for sports and extracurricular activities are treating students and taxpayers equitably (Tatz 2000).

Arnold notes another major obstacle to achieving school equity—citizen apathy. People satisfied with their own local schools "often see no reason to raise their own taxes to improve schools in other communities." Localized self-interest seems to be the prime motivator in improving financial equity. James Comer (1997) would regard that attitude as irresponsible, since acting in one's own children's best interest neglects the well-being of the least powerful.

Local control, a hallmark of American public education, is coming under criticism because it can be seen as retarding states' progress toward fiscal neutrality (Hadderman 2000). According to Books, "significant disparities in educational resources can often be justified [in courts' eyes] as an unintended but inevitable consequence of the exercise of local control." Books questions why communities need local control of funding (a system of privilege and advantage) when other environmental factors are anything but local—the job market, performance expectations, and the

curriculum itself.

The above observations dealing with citizen responsibility and local control lead to a second, inescapable conclusion: The most adequate and equitably financed schools in the world cannot "remedy social ills that have deep and varied causes" (Hess 1998). Moreover, Hess asserts, trying to "direct increasing amounts of money into schooling rather than into facilitative services such as crime-fighting, job-creation, recreational facilities, or local infrastructure" may fail to "enhance either social justice or equal educational opportunity." Three decades of research have shown socioeconomic background to be the prime determinant of academic achievement. Hess believes that "schooling can make a huge difference," but it may not be as efficacious as social measures directed at disadvantaged children's home and neighborhood environments. Of course, changing neighborhoods or moving kids to safer homes would take substantially greater commitment and resources.

Bruce Hunter (2000), AASA's director of public policy, would agree with Hess about "mobilizing families and communities to act on their own accompanied by a massive redistribution of resources in education, social services, health, mental health, and economic development." He also wants federal program monies to reach the disadvantaged kids for whom they were intended. Because it has become unpopular to spend on the poor and rurally isolated, Hunter notes, Congress and the President were constructing competitive block grants suitable for middle-class communities, instead of fully funding Title I and the Individuals with Disabilities Education Act (IDEA). Hunter questions the ethics of ignoring the poorest districts to help schools already inclined to succeed.

Economic incentives and tax abatements should be reconsidered, some argue. Corporate tax incentives used to lure companies "are costing school districts across the country hundreds of millions of dollars each year," according to some experts (Books 1999). Minnesota legislators say such deals erased $112 million from their schools' coffers in 1996. Texas schools lost $480 million in revenues between 1985 and 1995. The economic intentions may be honorable, but in this protracted "economic war between the states," schoolchildren are turning into casualties (Books).

Devolving financial responsibility to schools can raise issues of fairness. As site-based management (SBM) becomes more prevalent, there may be need for central-office referees. Since SBM's basic tenet is that decisions should be made closest to student needs, "each building will allocate resources based on the school's core values and instructional programs" (Polansky 1998). Great disparities can result if SBM is mishandled. Since principals are subject to community pressures, central-office staff will need to define and limit roles, provide training, build consensus, promote inventory sharing, and assess resource management.

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Improving Efficiency and Cost-Effectiveness

Concerns about equitable and adequate distribution of educational opportunities are matched by equally pressing worries about productivity and efficiency in public schooling. Although historically the productivity problem has been about "rising resources with flat or only slowly rising student achievement," the future challenge will be to produce substantially higher student achievement with flat or stable resources (Odden and Clune 1995).

Researchers Debate the Issue

Researchers are divided on the productivity issue, which is a debate over whether money matters in education outcomes. Some researchers, such as Eric Hanushek (1996), find little advancement in student achievement over the years that can be traced to increased funding. Others are more optimistic, claiming that some expenditures are tied to improved student achievement (Hedges and associates 1994, Kazal-Thresher 1993).

Still others are mindful of difficulties in applying the productivity concept to K-12 education. According to David Grissmer (1998), "The private sector is geared to producing a variety of goods that are automatically valued in dollars." Schools, however, yield varied outputs that resist aggregation and "are directed toward the cognitive, emotional, and social development of children, defying easy measurement.

It is equally hard to separate schools' contribution to

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education from that of families (Grissmer). Also, most empirical studies make no allowance for multiple-risk family situations, contextual family effects (like parents' educational background), or the cumulative effects of all previous schooling and family effects on achievement. Moreover, there are problems with collecting data on student performance and characteristics, relying on cross-sectional data (snapshots), and measuring actual inputs (Picus 2001).

An alternative group of experts, the educational economists, approach the "money matters" issue by examining how educational inputs influence adult earnings (Picus 2001). This rationale is based on human-capital theory, which holds that "investments in education lead to improvements in economic productivity generally, and to higher income for those individuals who 'invest' in that education." The best-known studies, according to Picus, are those of Card and Krueger and Julian Betts; however, results are inconclusive regarding the influences of increased school spending on individual adult earnings. According to Gerald Bracey, Krueger's most recent study did find "that society gets back about $2 for every dollar invested in small classes" (Bracey 2001).

Diversity and equity advocates have begun to explore the educational and societal costs of failing minority schoolchildren. Carolyn Talbert-Johnson (2000), an education professor at Dayton University, believes that the programmatic costs of academic failure (increased remedial instruction, low-ability tracks, and grade retention) are unjustifiably high. The national economy also gets shortchanged, according to another expert with the Educational Testing Service (Carnevale 2001). Carnevale says equalizing learning opportunities among blacks, Hispanics, and non-Hispanic whites would increase national productivity, adding "more than $230 billion in national wealth and $80 billion on new tax revenues every year." Carnevale is not alone in insisting that a sound education, including postsecondary training, is the "key ingredient in the 21st century recipe for growing the economic pie."

Experts have managed to reach agreement on three points: Available resources are shrinking even in good economic times; research should uncover how funds are actually spent; and schools will have to discover more cost-effective ways to use existing resources

(Hadderman 1998).

What Factors Can Drive Productivity Downward?

Allan Odden and William Clune say "wasteful administration" and high teacher salaries are not the reason, as some people claim, for low productivity. They point instead to poor resource distribution, unimaginative use of existing funds, schools' bureaucratic structure, and schools' focus on services and labor-intensive practices that drive up costs. Others attribute low productivity to schools' unstable governance structure, lack of incentives, inefficient budgeting and reporting practices, and tendency to backload, or overspend, on veteran teachers' salaries (Consortium on Productivity in the Schools 1995, Hanushek 1994, Lankford and Wyckoff 1997).

Some researchers claim that regardless of available funding, "school districts tend to utilize their resources in the same basic proportions," with 60 percent earmarked for instruction and about 40 percent going for support services (Picus 1996). Others have shown that most new funding dollars have gone for specialists and services, not the core instructional program (Odden 1996).

Expenditures That Matter

Researchers have tried to isolate the types of expenditures that make a difference in the school-productivity equation. For example, Crampton (1995), after analyzing inputs affecting achievement in New York State schools, concluded that expenditures seemed to matter when they bought smaller classes and more highly educated teachers.

Harold Wenglinsky's (1997) national study of fourth- and eighth-graders showed that math achievement was positively associated with lower teacher-student ratios and with expenditures on instruction and district-level administration. However, expenditures on facilities, recruitment of highly educated teachers, and school-level administrators were not related.

Studies of Existing Practice

Another kind of efficiency research explores schools' resource-allocation practices. David H. Monk's (1996) study of the New York State K-12 system found a 55 percent increase in secondary-level special-education instructional resources between 1983 and 1992, alongside modest increases in allocations for science and math teachers. These findings raise questions concerning the proper, most efficient distribution of teacher resources across different programs and subject areas.

Linda Hertert's 1995 resource-allocation study of 1,000 California schools in 30 districts disclosed similar findings. Besides uncovering considerable disparities among districts and among schools within the same district, Hertert found that "the distribution of teacher-pupil ratios, teacher experience, teacher education, and course offerings in higher-level math and science was less equitable across schools than was the allocation of money used to buy these resources" (Picus 1996). However, Nakib's study of sixty-seven Florida counties found "remarkably stable allocation patterns for both expenditures and staff allocation practices" (Picus).

A recent resource-allocation study by the Public Policy Institute of California (2001) discovered that average class size differs little across California schools, but that teacher preparation and high-school curricula (particularly, availability of advanced-placement courses) vary considerably. Urban schools serving mostly disadvantaged students receive fewer resources, including well- qualified teachers. In this study, socioeconomic status (SES) was found to be alive and well as a determinant of resource distribution and student outcomes.

A study of resource-allocation patterns in Chicago schools that use school-based budgeting found relatively consistent spending patterns across groups of schools (Rubenstein 2001). However, higher performing schools "tend to allocate a larger share of their discretionary resources for instructional purposes," whereas lower performing schools are apt to spend more in noninstructional areas, such as security.

Three states (Kentucky, New Jersey, and Texas) with restructured finance systems used their new "reform dollars" to raise staff salaries, augment staff-development efforts, add technology and other instructional resources, implement new programs, and

refurbish old facilities and/or build new ones (Goertz and Natriello 1999). However, researchers found few examples of standards-driven resource-allocation decision-making at the local level.

Developing Conscious Resource-Reallocation Strategies

New education dollars are better utilized in districts that have a vision or a plan for education reform (Goertz and Natriello). Many experts would agree that older dollars should receive the same consideration! For example, Wyoming panelists working on a definition of *educational adequacy* devised an instruction and resource-allocation strategy for elementary schools based on resource intensity in the early grades, smaller classes and schools, enhanced professional development, use of alternative ways to identify and serve exceptional students, and enhanced participation of teachers in instructional decision-making (Guthrie and Rothstein 1999). These instructional/resource strategies were then assigned costs and used to compute an ideal, yet reasonable, per-pupil expenditure figure for Wyoming schools.

In a recent book and article, Allan Odden and Sarah Archibald (2001) show how educators can develop new strategies for using existing resources more wisely in a standards-driven environment. Acknowledging that "restructuring programs and reallocating resources constitute a complex, large-scale process," Odden and Archibald studied schools that successfully considered certain issues (school size, overall class size, targeted small classes for reading and other subjects, student instruction groupings, planning and preparation time, and professional development) and made deliberate decisions regarding them.

The schools that Odden and Archibald studied took different approaches to implementing their reading program decisions, including those directed at helping exceptional and struggling students. Some schools adopted "a proven research program like Success for All; others reduced class sizes to 15 all day." Both types of decisions had financial implications, as they required extensive investment in professional development. Comprehensive reading programs needed more tutors and instructional facilitators; smaller classes needed more teachers. Paying for these innovations required the

type of resource reallocation that Odden had already observed in previous investigations. Schools had to learn to use categorical funds creatively, eliminate classroom aides, reduce public-support personnel, and, in some cases, eliminate one or two teaching positions to pursue their improved performance goals.

Additional Ingredients for Success

Picus (2001) sees resource allocation as only one component of a productive system. Other important ingredients include incentives (like waivers from district regulations) for improved student and school performance, development of a public-sector version of "venture capital" to pay for comprehensive school-restructuring programs, and a more market-based budgeting environment featuring privatized school-choice options.

WestEd researchers (2000) would supplement Odden's and Picus' suggestions with a list of "best practices" for using resources wisely: reducing class size to 25 or fewer students; using even smaller classes to teach reading; increasing teacher professional development and common planning time; providing tutors for struggling students; employing full-time master teachers to assist regular classroom teachers; and providing access to computer technologies.

Policy implications for resource reallocation and accompanying approaches to school productivity and improvement are enormous (see final section). As one finance expert sees it, there are no easy solutions to making more effective use of money in schools, since "values are in conflict, conditions vary widely from place to place, and knowledge about the link between resources and learning is incomplete" (Bolton 2000). Bolton believes citizens must pay closer attention to wider social and economic inequalities. Schools alone (no matter how much money they have) cannot overcome disadvantages affecting children's capacity "to gain full benefit from what education has to offer."

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School-Level Data-Collection Initiatives

The growing demands for accountability, the shift to school-level equity analysis, and the limitations of state education data systems underscore the need "to create new, detailed, and comprehensive school-level data systems" (Busch and Odden 1997). Constructing these new databases will be a costly yet beneficial endeavor that cannot succeed unless complex issues such as relevance, accessibility, comparability, capacity, and reliability are resolved (Busch).

States' Pioneering Efforts

Although many school districts currently track financial operations at the school level, few states require uniform accounting measures, making across-district comparisons very difficult (Picus 1996). Florida, with twenty years' experience, has a school-level data-collection system that furnishes the state with financial, student, and staff data via online, onsite computer terminals (Picus).

In Hawaii, sophisticated software allows the state auditor to track classroom resources (teacher salaries, benefits, teaching materials, and computers) and compare expenditure variations between regular schools and those serving "seriously challenged" students (Cooper and others 2001).

In New Jersey, state-provided software helps districts publish, for every school, annual report cards that integrate enrollment, personnel, financial, and

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assessment data (Cooper and others). The reports provide information on teacher-student ratios, district per-pupil expenditures, staff expenditures, and state standardized test scores. In contrast, New York City schools' accountability systems enjoy "little compatibility and integration of financial information."

Texas has a dual fiscal reporting and accountability system, the Academic Excellence Indicator, to provide information on teachers, student demographics and performance, and expenditures for each of 6,000 separate campuses.

Ohio, which made school-level data collection mandatory in 1994-95, tracks expenses via individually assigned school codes. Using Bruce Cooper and colleagues' model (1994), user-friendly Expenditure Flow Model data are aggregated to district and state levels and divided into instruction, pupil support, staff support, administration, and operations support functions; these, in turn, are divided into central-office and school-site expenditures (Picus). Both Texas and Ohio recently made use of data-collection systems to evaluate the progress of public schools statewide. In Texas, additional resources directed to needy students were found to be insufficient to raise performance levels (Clark 1999). New Ohio Institute's spring 2000 report concluded that Ohio had failed to align available resources behind its ambitious goals for higher student achievement (Christie 2000).

School Evaluation Services

To aid states with developing accessible and comparable school-level data, Standard & Poor's has introduced a research-based, comprehensive analytical framework called School Evaluation Services, or SES (Cox and others 2000). This framework "assembles and clarifies an extensive amount of data, analyzes academic and financial trends, and offers an impartial view of the comparative performance of all the school districts within a state." The service can be customized to focus on one district or site, and it addresses six broad data categories: expenditures; student outcomes; return on resources; finances, taxes, and debt; learning environment; and demographics. Michigan and Pennsylvania are the first states to contract for SES services.

Benefits and Limitations of School-Level Data

Picus's (1997) ongoing study of school-level data collection in four states (California, Minnesota, Florida, and Texas) explores whether such systems offer researchers and practitioners a boundless opportunity or a bottomless pit. The most significant gleaning: It is as hard to analyze data as it is to obtain them. States set up systems in response to legislative requirements, not researchers' needs. This situation might be remedied by setting up a licensing system similar to that used by the National Center for Education Statistics (Picus 1997). Researchers' patience and willingness to develop strong personal relationships with data-production staff are essential.

One limitation of using school-level data in research is the difficulty of comparing data across states (Picus 1997). Some researchers believe equity and effectiveness would be better served if a national system of student-level resource measures could be developed (Berne 1995, Consortium 1995, Biddle 1997). Hertert (1995), addressing national equity concerns, sees the Common Core of Data (CCD), jointly developed by the National Center for Education Statistics (NCES) and the Census Bureau, as a good first step for measuring interstate disparities. According to Tom Snyder of NCES (June 15, 2001 e-mail), the Common Core of Data "is an administrative records survey including enrollment, teacher, staff, graduate, and dropout material aggregated at the school, district, and state levels" that now incorporates the Census F33 survey of local government finances. The CCD survey, accomplished through arrangements with state education agencies, comprises a reliable source of standardized, comparable data for the nation's public schools.

In sum, school-level data systems are no magic bullet for measuring or maximizing available resources. They do have great potential to enhance understanding of the relationship between financial resources and student outcomes and to provide a richer, more indepth picture of schools' expenditure patterns (Picus 1997).

New technologies and procedures borrowed from industry will gradually transform public-school accounting systems and increase the feasibility of

achieving these goals (see final section).

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Cost-Cutting Trends

Many schools have discovered ingenious ways to reduce noninstructional expenditures.

Energy-performance contracting, for example, provides numerous health and productivity benefits for schools. It is "a mechanism to allow schools to pay for needed new energy equipment and modernization improvements with savings from reduced utility and maintenance costs" (Birr 2000). Its benefits include improved indoor air quality and reduced absenteeism. Tax-exempt school districts generally use a municipal lease (sometimes combined with cash, grants, or bonds) for energy-performance projects.

In 1993, the Texas State auditor's office found that $185 million could be saved annually by cutting travel expenses, buying cheaper supplies, soliciting bids for services, reducing excessive staff and salaries, and eliminating overly generous benefits. In 1983, Philadelphia schools began an energy-conservation program that has saved $115 million and netted schools 40 percent of the savings (Meyers 1997).

Food-service programs conserve resources by centralizing kitchens, forming purchasing cooperatives, updating technologies, and expanding their services and income via vending machines, catering, and creative, crowd-pleasing marketing strategies (Cline and Fitzgerald 1997). To cut costs and recapture student clientele, some open-campus high schools are transforming their cafeterias into fast-food restaurants (with healthy look-alike menu items) or contracting with Pizza Hut or Taco Bell to provide the "real thing."

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School districts in Texas, Pennsylvania, and Florida have uncovered hidden potential for savings, thanks to free, voluntary, comprehensive state audits of their management and spending practices (Johnston, March 25, 1998). Although such reviews can be risky, "they can also yield more useful data than standard, state-mandated compliance audits." The Texas comptroller came up with $300,000 in optional cost-cutting ideas. Wading through the reports takes time, but changes can be quantum, not just incremental.

School officials are increasingly "authorizing, chartering, and contracting with for-profit and not-for-profit organizations to operate entire schools or defined parts of the educational program" (McLaughlin and Brown 2000). Edison Schools manages 79 schools across the nation, and "Sylvan Learning operates their learning centers in 117 schools primarily funded under Title I." (Title I of the Elementary Secondary Education Act). Title I provides $8.2 billion yearly to improve learning opportunities and achievement for the nation's neediest students.)

Despite promising preliminary results in some schools, some educators are skeptical about the costs and consequences of these private tutoring services. Meanwhile, the U.S. Department of Education "seems intent on shifting much of the Title I money to firms like Success for All, which try to raise achievement for all students in a school" (Mathews 2000). It is too early to tell if efficiency and cost savings will result.

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Fundraising Strategies

Local Education Foundations

In today's tight-money climate, parents and educators are seeking help from private sources, such as local education foundations (LEFs), "the hottest fund-raising trend in public education" (De Luna 1998). Locally funded and operated education foundations emerged during the 1980s--particularly in states like California, Massachusetts, and Oregon, with voter-approved property-tax-limitation measures.

LEFs are nonprofit, tax-exempt third parties that foster educational innovation while supplying schools with needed monies, equipment, and services donated by generous businesses and community members.

There are about 2,000 LEFs throughout the nation. The average amount raised by most school foundations is only about .3 percent of a typical district's budget (Merz and Frankel 1997). Groups "employ such fund-raising techniques as direct solicitation letters, dinners, golf tournaments, and auctions" (De Luna).

According to Carol Merz and Sheldon Frankel's national study, LEFs that raise $10,000 or less annually usually provide mini-grants and scholarships; those that collect from $20,000 to $50,000 fund curriculum-enrichment programs; and those that raise $100,000 (particularly in California and Oregon) often underwrite teaching positions (Merz and Frankel, De Luna). LEFs with strong financial bases are rare.

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Rather than raising monies to replace public dollars, the eighty-four foundations belonging to the Public Education Network stress systemic reform, working in "policy areas, such as school governance, school finance, educational leadership, curriculum and assessment" (De Luna). They also try to reengage citizens and recapture financial support for public education. Network members get special opportunities to apply for grants from large foundations working in certain school-reform areas (De Luna).

Other Fundraising Strategies

In addition to tapping Local Education Foundations, many districts are pursuing a variety of other creative fundraising strategies. They are forming booster clubs and school-business partnerships, soliciting businesses or volunteers for in-kind donations, selling and leasing services and facilities, generating investment income, collecting user fees to fund sports and cocurricular activities, cooperating with social-service providers, pursuing government grants, and sponsoring schoolwide fundraising events (Pijanowski and Monk 1996, Monk and Brent 1997).

Some districts are waxing both innovative and entrepreneurial. A San Bernardino district has become the area's Internet service provider, and Tulsa (Ohio) Schools rent out buses and drivers to community groups (Vail 1998). Other innovations include a Florida middle school's fish farm, a CD album featuring Nashville grade-school supersongsters, and a retail school store/training program at a Maryland high school (Vail).

More Controversial Fundraisers

Financial strain has led increasing numbers of school districts to adopt controversial fundraising practices, such as subscribing to Channel One commercial TV news broadcasts to pay for educational technology (Molnar 1996). Another controversial service is ZapMe!--a company that provides schools thousands of dollars worth of computer equipment and high-speed Internet access in exchange for continuous, interactive advertisements in the lower left-hand portion of the screen (Manning 1999). Many schools are sponsoring grocery-script campaigns, using fast-food coupons as reading-contest prizes, and allowing advertisements on

school property.

Colorado Springs School District 11 was the first to offer advertising opportunities on the sides of school buses (Tracy Cooper 1996). This action was taken after new investment policies, self-insurance, contracting out, and salary freezes proved inadequate to offset voters' reluctance to increase taxes. In September 1997, the district signed a multimillion-dollar deal allowing Coca Cola to market its products in its vending machines and at special events (Vail 1998).

Corporate Sponsorships and Fundraising Programs

Alex Molnar and Jennifer Morales (2000), directors of the Center for the Analysis of Commercialism in Education at the University of Wisconsin, estimate that between 1990 and 2000, commercial activities in schools have multiplied several times over in the following areas:

- sponsorship of programs and activities
- exclusive agreements with corporations
- incentive programs
- appropriation of space
- corporate-sponsored educational materials
- electronic marketing
- privatized school programs
- fund-raising

Center researchers have found that "commercial activities now shape the structure of the school day, influence the content of the curriculum, and determine whether children have access to a variety of technologies" (Molnar and Morales 2000).

In a few districts, parents and students are fighting commercial intrusions. In Berkeley, California, the determined efforts of Sarah Church, a sophomore, squelched exclusive deals with Pepsi Cola and Nike (Manning). She organized a student-led forum to examine the corporations' proposals and inspired others to testify against the proposals at school board meetings.

A Seattle group of concerned parents teamed up with local unions to protest a corporate sponsorship that would raise $1 million yearly. Despite a task force's

policy recommendations restricting commercial activities, the Seattle school board recently signed an exclusive contract with Pepsi-Cola.

In June 1999, San Francisco's school board approved a Commercial Free Schools Act, the first in the nation, that "bars the district from signing exclusive beverage contracts or adopting educational materials that contain brand names" (Manning). In Spring 1999, California Assemblywoman Kerry Mazzoni and the Texas chapter of the National PTA actively lobbied against "the presence of corporate logos and trademarks in a mathematics book approved for use in these states," claiming they could have no legitimate educational purpose (Hoff 1990).

Although many critics question the ethics and equity of certain fundraising approaches (Molnar 1996 and 2000, Reese 1996, Aidman 1995), especially those involving business-school partnerships (Greenwood 1995), others view these associations as necessary, inevitable, and mutually beneficial (Cromarty 1997).

In an article examining stakeholder guidelines for fundraising activities, Alastair Glegg (1997) observes that partnerships with businesses and other organizations "should not be viewed as shortcuts to financial salvation or to eternal damnation, but should be approached carefully and thoughtfully."

State-Generated Revenue Sources: State Lotteries

In 1997, the 37 lottery states and the District of Columbia received "over 412 billion in net lottery income" (Garret 2001). Some states, like Florida, Georgia, and Ohio, earmark all lottery revenues to education (Garret); 20 states dedicate some portion of the proceeds to public education" (Manzo 2000).

Supposedly, "lottery revenues will supplement existing state expenditures on education, increasing such expenditures "by an amount equal to net lottery revenues." Garret's analysis of time-series data on the Ohio lottery, however, showed that lottery revenues earmarked for education had no effect on education expenditures. Ohio, like many other states, diverted tax revenues away from education to other needy programs.

A study published by the North Carolina Center for Public Policy Research found that revenues in the 29 states with lotteries in 1989 "have declined as a percentage of state income, from 3.5 percent" in 1989 to 1.9 percent in 1997 (Manzo). Although results were inclusive regarding benefits to public education, the study did find that "in California, Florida, and Michigan, lottery funds have merely substituted for normal levels of appropriations, despite the fact that lotteries had been promoted as boosting spending in education."

According to Manzo, these results echo a 1996 study by *Money* magazine, which found that "states with lotteries spent a lower percentage of their operating budgets on education than those without a lottery."

Tobacco Money: A Windfall for Education?

Although states are committing most of the $206 billion settlement with top tobacco companies to health programs, many lawmakers are deciding to bestow at least part of the windfall on public schools (Sandham 2000). According to Sandham, "at least 18 states have already enacted legislation ensuring that some money from the 1998 legal settlement will be spent on education, and legislatures in another five states are considering similar measures."

Money is being earmarked for college scholarships or tuition support in Michigan, Nevada, Connecticut, and Louisiana. In Ohio, New York, and New Jersey, tobacco funds will go for school construction and repairs. The Kansas legislature "agreed to put nearly all of the state's $3.5 billion in payments into a trust fund that could be used only for programs that benefit the health and well-being of children." Maine, too, opted for a trust fund and, along with Kentucky and Maryland, earmarked considerable amounts to early childhood education and other K-12 purposes.

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Trends and Issues: School Finance

Future Policy and Research Directions

Reinventing School Finance

Participants at a seminar sponsored by OERI's National Institute on Educational Governance, Finance, Policymaking, and Management (1997) identified four research areas needing special attention. At the top of the list were issues related to educational inputs and outcomes, especially the quest for innovative and stable educational-finance models. The report stated:

> As they redesign their finance systems, policy-makers want to know how such systems may be linked to performance; how states can finance the costs of designing and implementing new assessment systems; how states and local districts can accommodate rising enrollments, finance repairs of aging facilities, and fund equitable access to technology; and how special-education costs have affected general-education budgets.

A couple of years earlier, Odden and Clune (1995) put together a list of strategies for reinventing school finance. They suggest that states set fiscal-policy targets for improving equity and that fiscal-equity targets be structured around an appropriate foundation plan, a tax base keyed to the 90th percentile of statewide wealth per pupil, and an additional compensatory amount to provide services for poor children.

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New Directions in Public-Sector Accounting

According to Cooper and associates (1999), school leaders could learn much from trends in managerial accounting, particularly its methods "for relating costs to improved productivity." Educational productivity (as in other fields) "requires good information on the quality of results (as measured by tests, portfolios, graduation rates, and other indicators) that can be related to programs and their costs." To accomplish this goal, accounting practices must make several necessary shifts:

1. from regulatory to managerial accounting (useful to end-users as well as government agencies)
2. from separate to integrated reporting systems (relating fiscal data to teaching and learning functions and their results)
3. from general to focused/activity-based accounting
4. from centralized to decentralized accounting
5. from control-driven to mission-driven accounting (Cooper and others)

In another article, Cooper and two other finance experts (2001) tout the arrival of the "techno-revolution in the world of school business officials." They discuss four effects of technology on budgeting and financial management of schools: enhanced strategic planning and mission building; budget standards without standardized spending; a movement from system to student; and integration of multiple reporting systems.

Advanced budget technology (ABT) is a promising development, they say, since it combines updated accounting methods, best management practices, and the latest Internet linking capabilities. ABT will assist reform-minded educators in several areas: mission directedness, efficiency and cost-effectiveness, data accessibility, assessment and feedback, and improved accountability for revenue and expenditures. Lack of data comparability and of sophisticated budget reporting could hinder development and implementation of ABT systems.

Strategies for Enhancing School Productivity

To improve productivity, states may want to provide additional adjustments to augment organizational teaching capacity, reward exceptional teaching performance, and develop and administer a statewide student-achievement test, accompanied by strategies for helping struggling students succeed. Greater productivity would also result from decentralizing educational finance. States could require districts to transfer at least 85 percent of the budget directly to schools or bypass districts entirely, as is done in Australia and as has been recommended by the Chicago Panel on School Reform.

Since any move to decentralize school management calls into question the single-salary schedule, more research is needed on how to align teacher compensation with standards-based reforms and how to make beginning teachers' salaries more competitive and veterans' remuneration more knowledge-oriented (Odden and Clune 1995). Pay-for-performance plans are promising approaches that need further research.

Seeing resource re-allocation as the key to "teaching all students to high standards," Odden and Archibald (2000) advise school-district leaders to create new, more effective sets of educational strategies that match students' needs and staff members' capabilities; cooperate with unions to make teacher contracts more flexible; provide schools with lump-sum, zero-based budgets; and create a "pot" of professional-development money from reallocated resources.

Meanwhile, Odden and Archibald advise state leaders and education policymakers to create initiatives that encourage schools to develop schoolwide strategies for educating students to high standards; develop a student-performance and school-level accountability system dispensing both rewards and sanctions; and require districts and schools to create a "funding pool" (totaling up to 3 percent of the operating budget) for intensive, ongoing professional-development activities.

Odden and Archibald recommend that federal leaders and education policymakers retrain state and local officials to shift their emphasis in using Title I funds from fiscal tracking to implementing "key programmatic elements of effective schoolwide strategies. They should also continue the Ed-Flex program, which encourages schools to pool dollars from several different categorical programs and use them for

more effective, schoolwide strategies; continue and expand the Comprehensive School Reform Demonstration Program that provides schools with grant money to fund such programs; and "enhance accountability programs that focus on student performance results." Programs such as Success for All, Accelerated Schools, and the New American Schools designs are worthy examples (Picus 2001).

Creating a Federal Equalization Role

In ordering more equitable spending among school districts within states for the past thirty years, state courts may have ignored an even greater inequality--the difference in how much is spent on education in rich versus poor states (Rothstein 2001). Existing federal-aid programs such as Title I may actually exacerbate this problem, as states with high per-pupil spending receive more federal dollars per pupil than lower spending states.

Richard Rothstein sees equalization of per-pupil spending among states as a unique and necessary federal role—despite the inevitable political ramifications. Any subsidization plan for low-spending states, however, would have to consider relative purchasing power among states and regions, differentials involved in teaching disadvantaged and advantaged children, and the problem of creating incentives for states and communities to reduce their own equalization efforts.

A Laundry List of School Finance Challenges

During the next several years, both educators and policymakers will face several challenges:

- Balancing concerns for equity and quality in state/local financial and academic accountability systems.
- Finding and/or lobbying for new monies (from state and local sources) and obtaining federal aid (such as Impact Aid, and Qualified Zone Academy Bonds) for financing school construction and renovation projects to satisfy

court mandates and provide a more wholesome physical learning environment.

- Funding the full costs of educational technology equipment, infrastructure, and training, possibly by adopting total cost-of-ownership analytical tools (Bolton 2001) while increasing access to technology.
- Resolving clashes among competing reform strategies (such as standards versus school choice) and deciding which are genuinely worth funding.
- Balancing fiscal decentralization efforts (like school-based budgeting) with re-centralization trends driven by court-mandated school-finance reforms and the standards movement. New-found budgeting freedom for principals and teachers is being eroded by governors' and legislators' demands for heightened oversight.
- Seeking more stable and equitable funding sources for athletic programs and other co-curricular activities. This means addressing the current public policy of assessing student fees to support activities that previously were publicly funded (Statz 2000).
- Advocating/partnering to improve economically disadvantaged children's neighborhoods and living conditions so that public monies can be used more productively and students can realize their full learning potential.
- Considering the actual effects of lotteries, local fund-raising practices, and corporate tax incentives on school revenues.
- Using categorical funds (such as Title I and IDEA) and "adequacy" funding creatively and responsibly to reallocate educational resources to benefit the most disadvantaged and needy students (Odden and Picus).

According to WestEd researchers (2000), western states face special challenges, including lower school-funding levels than other regions, soaring enrollment, and growing student diversity. Experts advise practitioners and policymakers to consider the national median as the minimally adequate funding base, increase spending to support school and teacher capacity, and seek federal assistance in exchange for increased accountability.

The Mission of Education Finance

As the OERI Institute's (1997) participants observed, "education finance is the foundation that enables schools to exist and teaching and learning to occur." For desired outcomes to be fully realized, school finance must never be considered in isolation, but "must be viewed as an essential part of any major reform plan" (Hirth 1996). As Denny Bolton (2000) notes, states must do more than provide a major share of funding; what's needed is "a coherent direction or philosophy in their school finance systems" so that money truly matters in public education.

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